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Order inflows key for recovery ahead!

About the stock: KNR Constructions (KNR) is a leading company in the highways sector having executed 9127+ lane km of projects across 12 states, along with established presence in irrigation and urban water infrastructure management.

- Reported subdued revenue CAGR of ~8.4% over FY20-25.

Q3FY26 Performance: KNR Constructions standalone revenue at ₹585.1 crore, was down 21.3% YoY (17.4% on adjusted basis), given the low executable order book. EBITDA stood at ₹30.6 crore, down 79.8% YoY (73.9% on adjusted basis), with margins contracting 1134 bps YoY to 5.2%, due to elevated subcontracting expenses and negative operating leverage. PAT came in at ₹17.6 crore, down 94.9% YoY (77.7% YoY on adjusted basis) given the weak operating performance.

Investment Rationale

- Order Inflows crucial ahead:** As of Q3FY26, the company's order book stood at ₹8,849 crore, implying 3.3x book to bill. According to management the order inflows are pegged at ₹10,000-₹12,000 crore by Q2FY27. and indicated a visible bid pipeline of ~₹30000-₹40000 crore from roads, irrigation, EPC, and emerging railway opportunities. We highlight that order inflows are crucial for growth ahead at order book (ex-mining which is to be executed in 5 years) is dismally low at ~₹5300 crore.
- Guidance trimmed further:** We note that the FY26 revenue guidance has been adjusted to ~₹2,000 crore from an earlier indication of ₹2,000-₹2,500 crore, with EBITDA margins projected at ~9%-10%. We expect revenues growth at ~2.8% CAGR over FY25-28E at ₹3653 crore with EBITDA margins at 9.5%/11%/13.5% in FY26/FY27/FY28 vs. 18.6% in FY25. We estimate earning degrowth of 2.8% CAGR over FY25-28E due to weak operating performance.
- HAM assets monetised Receivables recovery key:** During Q3, the company executed Share Purchase Agreements with Indus Infra Trust, for the proposed sale of its HAM assets for ₹1,543 crore (including cash surplus of ₹144.5 crore), against total invested equity of ₹566.8 crore. This deal, implies an attractive valuation of 2.5x Price/book with completion expected by Q2FY27. We note that company has total receivable exposure of ~₹1,430 crore to Telangana stands, of which it expects partial recovery of ~₹335 crore, by March End.

Rating and Target Price

- Weak order book implies that revenues will remain weak in near term. We maintain our HOLD rating.
- We value KNR on SoTP basis at target price of ₹ 165/share (vs. earlier TP of ₹200).



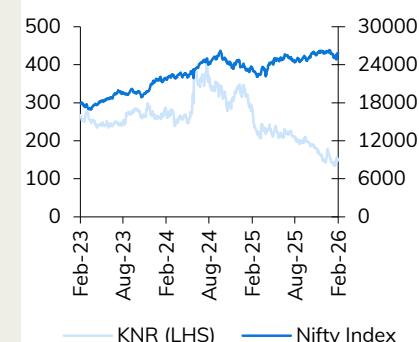
Particulars

Particulars	Amount (₹ crore)
Market Cap	4,167
Total Debt (FY25)	0.0
Cash (FY25)	144
EV	4,023
52 week H/L (₹)	291/ 130
Equity capital	56.2
Face value (₹)	2

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoters	48.8	48.8	48.8	48.8
FIIIs	6.9	7.1	7.5	7.4
DII	28.3	25.1	21.5	20.0
Other	16.0	19.0	22.2	23.8

Price Chart



Key risks

- Lower than expected order inflows
- Better than expected execution

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Key Financial Summary

₹ crore	FY23	FY24	FY25	5 yr CAGR (FY20-25)	FY26E	FY27E	FY28E	3 yr CAGR (FY25-28E)
Net Sales	3,743.8	4,091.0	3,358.6	8.4%	2,100.8	2,902.1	3,652.8	2.8%
EBITDA	721.7	701.0	625.9	5.1%	199.6	319.2	493.1	-7.6%
EBITDA Margin (%)	19.3	17.1	18.6		9.5	11.0	13.5	
Adj. PAT	401.2	441.0	355.7	8.8%	121.8	197.4	326.7	-2.8%
Adj. EPS (₹)	14.3	15.7	12.6		4.3	7.0	11.6	
P/E (x)	8.4	8.4	5.7		34.2	21.1	12.8	
EV/EBITDA (x)	5.5	5.6	6.4		17.9	10.9	7.4	
RoNW (%)	14.7	13.7	9.0		3.0	4.6	7.2	
RoCE (%)	21.9	22.1	24.9		4.2	6.6	9.9	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Guidance:** Management guided FY26 revenue at ~₹2,000 crore, implying a weak Q4FY26 run rate of ~₹450 crore, with EBITDA margins at ~9-10% affected due to operating deleverage, idle capacity, higher subcontracting, and tail-end project costs. **For FY27, the ~₹2,000 crore revenue is a base case derived from the current executable order book, with potential upside contingent on fresh order inflows. A meaningful recovery in both topline and margins is expected only from FY28.**
- **Order-book position & bidding Opportunities:** The company reported an order book of ₹8,849 crore as of Q3FY26, with a diversified mix comprising ~40% mining, ~29% roads, ~20% pipeline, and ~19% irrigation. The company has put bids worth ~₹7000-₹8000 crore in Maharashtra and Karnataka state, ~₹4000 crore in mining project in Jharkhand. With a visible bid pipeline of ~₹30000-₹40000 crore, comprising 63 bids in road projects, 26 bids in railways, 11 projects in irrigation, 1 project in Metro, the management targets order inflow of ~₹10000-₹12000 crore by Q2FY27, largely from roads, irrigation, EPC, and emerging railway opportunities.
- **Equity Requirement:** Management indicated that of the ₹962 crore total equity requirement for its HAM portfolio, ₹727 crore has already been infused. This leaves a balance of ₹235 crore, which is expected to be split between ₹87 crore in the remainder of FY26 and ₹148 crore in FY27.
- **Progress on HAM projects:** As of Q3FY26, KNR Constructions' HAM project completion status is as follows:
 - Ramanattukara–Valanchery: ~99.4% complete.
 - Valanchery–Kappirikkad: ~98.3% complete.
 - Chittor–Thatchur: ~97.4% complete.
 - Magadi–Somwarpet: ~90.1% complete.
 - Oddanchatram – Madathukulam: 100% complete.
 - Marripudi–Somavarappadu: ~64.9% complete.
 - Mysore–Kushalnagara (Package V): ~9.9% complete.
 - Mysore to Kushalnagara (Pkg IV): ~5.6% complete.
- **Receivables plus unbilled revenue:** The total receivable exposure to the Government of Telangana stands at ~₹1,430 crore (includes ~₹650 crore of unbilled revenue). The management stated that collections are being actively pursued through government engagement and legal channels, with expectation of a partial receipt, by end of FY26. Total unbilled revenue stood at ₹1355 crore, out of which ~₹816 crore pertains towards Irrigation, ₹140 crore towards the pipeline segment.
- **Working capital, Cash and debt:** As of Q3FY26, at standalone level it is largely net debt free. The working capital stood at ~₹82 crore while cash & cash equivalents stood at ~₹80 crore. At the consolidated level, Gross debt stood at ~₹2,443 crore, of which ~₹2,100 crore pertains to SPVs under monetisation. The management expects the consolidated debt to come at ~₹500 crore by the year end.
- **Capex:** The management indicated that total YTD capex incurred in FY26 is ~₹5 crore, largely towards routine maintenance and minor additions. Mining-related capex of ~₹350 crore remains deferred, as execution can commence only after receipt of pending forest and statutory clearances. For FY27, management guided that incremental capex of up to ~₹100 crore may be required only if new projects are secured, particularly outside core road segment.

Exhibit 1: Quarter Performance

Particulars	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
Total Operating Income	585.1	743.5	-21.3	493.0	18.7	Low executable order book led to revenue decline
Other Income	9.4	116.6	-92.0	3.9	141.5	
Consumption of raw materials	165.0	338.9	-51.3	166.1	-0.7	
Employee benefit expenses	33.8	41.3	-18.2	46.5	-27.3	
Other Expenses	51.5	83.1	-38.0	50.3	2.6	
EBITDA	30.6	151.6	-79.8	53.6	-42.8	
EBITDA Margin(%)	5.2	20.4	-1515 bps	10.9	-563 bps	Negative operating leverage led margin decline
Depreciation	14.6	22.9	-36.2	14.7	-0.5	
Interest	3.1	3.1	2.2	4.6	-32.2	
PBT	22.3	242.2	-90.8	38.2	-41.6	
Exceptional Item	0.0	0.0	0.0	0.0	0.0	
Taxes	4.6	60.0	-92.3	10.3	-54.8	
Adj PAT	17.6	79.1	-77.7	27.9	-36.8	

Source: Company, ICICI Direct Research

Exhibit 2: SoTP Valuation

	Value (₹ crore)	Per Share (₹)	Comment
EPC Business	3921	139	12x FY27E P/E
HAM Projects Investment	727	26	1x Equity investment
SoTP Value	4648	165	

Source: Company, ICICI Direct Research

Exhibit 3: Quarter Performance

(₹ Crore)	FY26E			FY27E			FY28E
	Old	New	% Change	Old	New	% Change	New
Revenue	2,534	2,101	-17.1	3,786	2,902	-23.4	3,653
EBITDA	379	200	-47.4	566	319	-43.6	493
EBITDA Margin (%)	15.0	9.5	-546 bps	15.0	11.0	-396 bps	13.5
PAT	253	122	-51.8	389	197	-49.3	327
Diluted EPS (₹)	9.0	4.3	-51.8	13.8	7.0	-49.3	11.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement.

(₹ Crore)	FY25	FY26E	FY27E	FY28E
Net Sales	3,358.6	2,100.8	2,902.1	3,652.8
Other operating income	-	-	-	-
Total Revenues	3,358.6	2,100.8	2,902.1	3,652.8
Raw Material Expense	1,466.4	861.3	1,175.3	1,479.4
Other Construction Exp.	773.9	672.3	928.7	1,132.4
Employee benefit expen:	176.9	105.0	145.1	182.6
Other Expenses	315.4	262.6	333.7	365.3
Total Operating Exp	2,732.7	1,901.2	2,582.8	3,159.6
EBITDA	625.9	199.6	319.2	493.1
Other Income	451.7	44.7	56.2	65.9
Interest	13.0	14.2	14.2	14.2
Depreciation	90.3	71.9	94.8	103.8
PBT	959.4	158.2	266.4	441.0
Total Tax	233.7	36.4	69.0	114.2
Reported PAT	725.7	121.8	197.4	326.7
Adjusted PAT	355.7	121.8	197.4	326.7

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement

(₹ Crore)	FY25	FY26E	FY27E	FY28E
Profit before Tax	959	158	266	441
Depreciation	90	72	95	104
Interest Paid	13	14	14	14
Others	(373)	(45)	(56)	(66)
CF before WC changes	689	200	319	493
Net Increase in CA	(432)	298	(297)	(507)
Net Increase in CL	(305)	(128)	215	202
Taxes paid	(217)	(36)	(69)	(114)
Net CF from Op Activities	(264)	333	169	74
(Purchase)/Sale of FA	(18)	(100)	(100)	(100)
Loans and Inv in JV/SPV	(67)	198	(21)	(158)
Others	277	45	56	66
Net CF from Inv. Activities	191	143	(65)	(192)
Debt Proceeds/Repayment	-	-	-	-
Interest Paid	(12)	(14)	(14)	(14)
Others	(7)	(7)	(7)	(7)
Net CF from Fin. Activities	(19)	(21)	(21)	(21)
Net Cash flow	(91)	454	82	(139)
Opening Cash/ Cash Equiv.	235	144	598	680
Closing Cash/ Cash Equiv.	144	598	680	541

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet

(₹ Crore)	FY25	FY26E	FY27E	FY28E
Liabilities				
Share Capital	56.2	56.2	56.2	56.2
Reserves & Surplus	3,888.7	4,003.6	4,193.9	4,513.6
Networth	3,945.0	4,059.8	4,250.1	4,569.9
Secured Loan	-	-	-	-
Unsecured Loan	-	-	-	-
Total Debt	-	-	-	-
Deferred Tax Liability	-	-	-	-
Total Liabilities	3,957	4,072	4,262	4,582
Assets				
Gross Block	1,696.9	1,796.9	1,896.9	1,996.9
Net Block	299.9	328.0	333.2	329.3
Capital WIP	0.4	0.4	0.4	0.4
Non-current Investments	852.5	654.6	675.8	833.4
Current Assets				
Inventories	160.3	184.2	254.4	320.2
Sundry Debtors	1,276.2	777.0	755.3	950.7
Loans and Advances	5.3	4.7	5.0	5.4
Other Current Assets	1,635.8	1,835.8	2,035.8	2,235.8
Cash	143.6	597.9	680.2	541.3
Total Current Assets	3,077.5	2,801.6	3,050.6	3,512.1
Creditors	308.0	192.6	266.1	334.9
Provisions	15.0	9.4	12.9	16.3
Other Current Liabilities	369.6	362.6	500.9	630.5
Other Long Term Liabilit	5.5	5.5	5.5	5.5
Total Current Liabilities	692.5	564.6	779.9	981.7
Net Current Assets	2,525.0	2,831.3	2,947.2	3,068.1
Total Assets	3,957	4,072	4,262	4,582

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per Share Data				
EPS (Fully Diluted)	25.8	4.3	7.0	11.6
Adjusted EPS	12.6	4.3	7.0	11.6
BV	140.3	144.4	151.1	162.5
Operating Ratios				
EBITDA / Net Sales	18.6	9.5	11.0	13.5
PAT / Net Sales	10.6	5.8	6.8	8.9
Inventory Days	17	32	32	32
Debtor Days	139	135	95	95
Creditor Days	33	33	33	33
Return Ratios				
RoE	9.0	3.0	4.6	7.2
RoCE	24.9	4.2	6.6	9.9
RoIC	18.1	4.5	7.7	12.1
Valuation Ratios				
EV / EBITDA	6.4	17.9	10.9	7.4
P/E	5.7	34.2	21.1	12.8
EV / Net Sales	1.2	1.7	1.2	1.0
Market Cap / Sales	1.2	2.0	1.4	1.1
Price to Book Value	1.1	1.0	1.0	0.9
Turnover Ratios				
Gross Block Turnover	2.0	1.2	1.5	1.8
Solvency Ratios				
Debt / Equity	-	-	-	-
Current Ratio	4.4	5.0	3.9	3.6
Debt / EBITDA	-	-	-	-
Quick Ratio	4.2	4.6	3.6	3.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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